

Response to *The Nerve* vendor payment article

August 6, 2015

The Nerve posted an article on www.thenerve.org at 9 a.m. August 5, 2015, that contains potentially misleading/missing information about payments the South Carolina Public Employee Benefit Authority (PEBA) makes to its vendors. PEBA received two requests for information from *The Nerve* August 4, 2015; one at 2:38 p.m. and another at 3:29 p.m. PEBA responded to *The Nerve* at 3:33 p.m. to advise that we were working on obtaining the information requested.

By the time PEBA staff had gathered the information *The Nerve* requested, which was the next morning, we discovered that the article had already been published. After reading the article and realizing that the information about PEBA's vendor payments was misleading and one payment reference was completely incorrect, thereby rendering the reported projections of increases invalid, PEBA staff pulled together information from its insurance financial statements, gathered program and plan background information, and emailed a detailed response to *The Nerve* at 6:05 p.m. August 5, 2015. In our response, PEBA requested that *The Nerve* make clarifications and corrections to the article based on the information provided. A response from *The Nerve* this morning indicates that no corrections or clarifications to the article will be made.

PEBA and its predecessor organizations have a long-standing commitment to fiscally prudent stewardship of the funds with which we are entrusted and to transparency in our operations. We would like for readers of *The Nerve* article to have access to all of the facts about PEBA's vendor payments and are providing those herein.

Self-insured, fully insured

As you read through this article, you will notice references to *self-insured* plans and *fully insured* products. Here are brief explanations of these terms. With a *self-insured plan* like the State Health Plan, we do not pay premiums to an insurance company, but rather collect the premiums and contributions paid by members and employers and set them aside in a trust fund used to pay claims and administrative expenses. Any interest earned from this account is used to help fund the plan. With a *fully insured plan* like the Optional/Dependent Life program, fixed premiums are paid to an insurance company and the company pays claims and administrative expenses using the collected premiums.

Who is covered by these plans

More than 465,000 individuals are covered by the insurance plans and programs PEBA administers. These individuals are active employees, retirees, surviving spouses and others who are or have been employed by a state agency, public school district, higher education institution or local subdivision of government. These numbers represent subscribers and their dependents: spouses and children.

What these payments represent

The payments cited in *The Nerve's* August 5, 2015, article are not just payments to vendors. These payments represent the actual expenses of operating insurance plans for our 465,000 members. These payments represent claims paid on behalf of these members and include claims payments for their medical, dental and vision care as well as their prescription drugs.

We believe it is misleading to think of these payments as vendor payments because the most significant dollar amounts represent insurance claims payments for our members, not the administrative costs associated with the plans. We also believe it would provide a much clearer picture of what PEBA is paying vendors by looking at the administrative fees, not the claims expense. For example, of the \$1.3 billion paid to BlueCross BlueShield of South Carolina, approximately \$1.2 billion, or 90 percent, reflects direct claims reimbursements on behalf of State Health Plan-covered employees and retirees, and the dependents they cover. In addition, another \$72 million of the \$1.3 billion represents employees' and retirees' premiums for Dental Plus and vision benefits, which are the source of claims expense for those benefits. The remainder represents administrative fees for the State Health Plan.

Funding sources for the plans

Please keep in mind that public employers are not the only ones contributing to the insurance plans. Members, depending on the tier of coverage they select, pay a significant portion of their health insurance premiums. For some of the insurance programs, such as the Optional and Dependent Life, Vision Care and Dental Plus plans, the member pays the entire premium.

BlueCross BlueShield of South Carolina

BlueCross BlueShield of South Carolina (BCBSSC) is the claims administrator for the State Health Plan and State Dental Plan, which are self-insured plans, and is the insurer and claims administrator for the Dental Plus and Vision plans.

The financial statements for the insurance funds show that the claims, administrative fees and premium expense for fiscal year 2014 totaled \$1.3 billion and the respective total for fiscal year 2012 was \$1.2 billion, not \$488.7 million as reported in *The Nerve* article. PEBA's financial staff tried but were unable to pull the correct expenses paid to BCBSSC prior to fiscal year 2014 from the Comptroller General's website. Audited financial information is in the table of Page 4 of this document.

Catamaran and Medco Health Solutions

Catamaran is the current pharmacy benefits management services vendor. Catamaran's contract period runs from January 1, 2014, through December 31, 2015. Payment to Catamaran was for the period of January 1, 2014, through June 30, 2014. Prior to January 1, 2014, **Medco Health Solutions** had the pharmacy benefits management services contract. Payment to Medco was for the period of July 1, 2013, through December 31, 2013.

BlueChoice HealthPlan of South Carolina

BlueChoice HealthPlan is a health maintenance organization that was offered as a health insurance option for our members for a number of years. The plan was self-insured until January 1, 2013, when it became a fully insured plan. BlueChoice did not offer the option to our members after 2014.

Metropolitan Life Insurance Co.

MetLife is the insurer for the state's Optional and Dependent Life Insurance plans. Payments represent premiums for these fully-insured life insurance plans, which include claims and administrative expense embedded in the premium paid to the carrier (insurer).

Please see financial statement information on Page 4.

Audited financial data for the plans

The information in the table below was pulled from PEBA's audited financial statements. Premiums for the fully-insured Dental Plus and Vision plans include claims and administrative expense embedded in the premium paid to the carrier (insurer).

	6/30/2012	6/30/2013	6/30/2014
BlueCross BlueShield of South Carolina Payments			
Medical-PPO Claims	\$1,061,234,181	\$1,114,792,160	\$1,126,509,597
Medical-PPO Admin Fee	\$45,582,055	\$46,923,528	\$50,492,403
Dental Claims	\$50,758,732	\$52,280,151	\$53,207,450
Dental Admin Fee	\$2,241,067	\$2,212,987	\$2,242,069
Dental Plus Premiums	\$43,612,645	\$48,636,367	\$54,621,706
Vision Premiums ¹	\$13,809,420	\$15,951,056	\$18,141,816
Total	\$1,217,238,100	\$1,280,796,249	\$1,304,855,041

Pharmacy Benefits Management Services Payments			
Medco Claims	\$524,039,325	\$578,583,730	\$325,220,202
Medco Fees	\$2,036,833	\$2,081,051	\$1,036,953
Catamaran Claims			\$331,371,067
Catamaran Fees ²			\$10,318,569

Optional/Dependent Life Insurance Payments			
MetLife Premiums	\$40,463,406	\$44,064,888	\$47,596,101

HMO Health Insurance Option Payments			
BlueChoice Claims	\$130,830,791	\$70,006,149	
BlueChoice Fees	\$6,918,409	\$3,160,758	
BlueChoice Premiums		\$50,608,064	\$71,650,829

¹ Eye Med serves as the provider for the Vision Plan and BCBSSC serves as the underwriter for the Vision Plan.

² Administrative fees for Catamaran are higher than those for previous fiscal years due to the SHP's implementation of a Medicare Part D plan and the associated administrative costs of the plan.